City of Grand Rapids and County of Kent Joint Building Authority (A Joint Venture of the City of Grand Rapids, Michigan)

Financial Statements
For the Year Ended June 30, 2008



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Independent Auditors' Report

Members of the City of Grand Rapids and County of Kent Joint Building Authority Grand Rapids, Michigan

We have audited the accompanying financial statements of the City of Grand Rapids and County of Kent Joint Building Authority (the Authority) as of and for the year ended June 30, 2008. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Rapids and County of Kent Joint Building Authority at June 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Grand Rapids, Michigan

BDO Seedman, LLP

December 1, 2008

Management's Discussion and Analysis

As management of the City of Grand Rapids and County of Kent Joint Building Authority (the Authority), we offer readers of the Authority's financial statements, this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2008. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements.

The statement of net assets presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets.

The statement of revenues, expenses and changes in net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows presents information showing the Authority's cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed Statement of Net Assets

<i>June 30,</i>	2008	2007
Other assets	\$ 561,305	\$ 589,278
Lease receivable, net	1,400,000	1,595,000
Capital assets, net	214,833,588	219,491,638
Capital assets, net	214,033,300	219,491,036
Total Assets	216,794,893	221,675,916
Accrued interest payable	18,024,811	14,850,890
Premium on bonds	1,814,220	1,899,311
Bonds payable	82,733,904	86,143,904
Total Liabilities	102,572,935	102,894,105
Net Assets		
Invested in capital assets, net of related debt	131,685,464	133,616,658
Unrestricted	(17,463,506)	(14,834,847)
Total Net Assets	\$114,221,958	\$118,781,811

The Authority's total net assets decreased just over \$4.5 million or 3.84%. The decrease is due to \$4.6 million of current depreciation expense.

The Authority's total liabilities varied only slightly from fiscal year 2007 to 2008, with a difference of approximately \$320,000 or 0.31%.

Condensed Statement of Revenue, Expenses and Changes in Net Assets

Year ended June 30,	2008	2007
Operating expenses	\$ (4,658,050) \$	(4,663,504)
Nonoperating revenues	5,374,896	5,236,556
Nonoperating expenses	(5,276,699)	(5,249,628)
Change in net assets	(4,559,853)	(4,676,576)
Total Net Assets, beginning of year	118,781,811	123,458,387
Total Net Assets, end of year	\$ 114,221,958 \$	118,781,811
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Next Year

No new projects are anticipated for the next fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City of Grand Rapids and County of Kent Joint Building Authority finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Grand Rapids Comptroller's Department, 300 Monroe NW, Grand Rapids, Michigan 49503.

Financial Statements

(A Joint Venture of the City of Grand Rapids, Michigan)

Statement of Net Assets

June 30, 2008	Public Museum Parking Facility	DeVos Place	Total
Assets			
Current Assets Cash Current portion of leases receivable (Note 3)	\$ - 205,000	\$ -	\$ - 205,000
Total current assets	205,000	-	205,000
Noncurrent Assets Lease receivable, net of current portion (Note 3) Other assets Capital assets (Note 4): Land Buildings Equipment and furniture Accumulated depreciation	1,195,000 13,752	547,553 22,180,088 208,416,775 3,986,029 (19,749,304)	1,195,000 561,305 22,180,088 208,416,775 3,986,029 (19,749,304)
Total noncurrent assets	1,208,752	215,381,141	216,589,893
Total Assets	1,413,752	215,381,141	216,794,893
Liabilities			
Current Liabilities Accrued interest payable Current portion of bonds payable (Note 5)	205,000	160,369 3,545,000	160,369 3,750,000
Total current liabilities	205,000	3,705,369	3,910,369
Noncurrent Liabilities Premium on bonds Accrued interest payable (Note 5) Bonds payable (Note 5)	- - 1,195,000	1,814,220 17,864,442 77,788,904	1,814,220 17,864,442 78,983,904
Total noncurrent liabilities	1,195,000	97,467,566	98,662,566
Total Liabilities	1,400,000	101,172,935	102,572,935
Net Assets Invested in capital assets, net of related debt Unrestricted	13,752	131,685,464 (17,477,258)	131,685,464 (17,463,506)
Total Net Assets	\$ 13,752	\$114,208,206	\$ 114,221,958

(A Joint Venture of the City of Grand Rapids, Michigan)

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2008	Public Museum Parking Facility		DeVos Place	Total	
Operating Expense Depreciation	\$	-	\$ 4,658,050	\$ 4,658,050	
Operating loss		-	(4,658,050)	(4,658,050)	
Nonoperating Revenues (Expenses) Payments on lease receivable Other revenue Interest on bonds payable Other expenses		74,875 - (74,875) (2,292)	5,214,931 85,090 (5,173,852) (25,680)	5,289,806 85,090 (5,248,727) (27,972)	
Total nonoperating revenues (expenses)		(2,292)	100,489	98,197	
Changes in net assets		(2,292)	(4,557,561)	(4,559,853)	
Net Assets, beginning of year		16,044	118,765,767	118,781,811	
Net Assets, end of year	\$	13,752	\$114,208,206	\$ 114,221,958	

See accompanying notes to financial statements.

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Statement of Cash Flows

	Dublia	Museum		DeVos		
		g Facility		Place		Total
100 000 000 1	urkin	gracinty		Tiuce		Total
Cash From Capital and Related						
Financing Activities						
Receipts from lessees	\$	269,875	\$	5,214,931	\$	5,484,806
Principal paid on capital debt		(195,000)		(3,215,000)		(3,410,000)
Interest paid on capital debt		(74,875)		(1,999,931)		(2,074,806)
-						
Cash from capital and related financing activiti	es	-		-		_
Net increase in cash and cash equivalents		-		-		-
Cash and Cash Equivalents, beginning of year	ır	-		_		_
Cash and Cash Equivalents, end of year	\$		\$		\$	
Cash and Cash Equivalents, end of year	Ф	-	Ф	-	Ф	-
Deconciliation of Operating Logs to Not Cost	h					
Reconciliation of Operating Loss to Net Cash From Operating Activities	l I					
Operating loss	\$		\$	(4,658,050)	\$	(4,658,050)
Adjustments to reconcile operating loss to c		-	ψ	(4,038,030)	φ	(4,038,030)
from operating activities:	asii					
Depreciation expense		_		4,658,050		4,658,050
Depreciation expense		-		+,030,030		+,030,030
Net Cash From Operating Activities	\$	-	\$	-	\$	

See accompanying notes to financial statements.

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Notes of Financial Statements

1. Reporting Entity

The City of Grand Rapids and County of Kent Joint Building Authority (the Authority), a joint venture of the City of Grand Rapids, Michigan (the City), was created by the City of Grand Rapids, Michigan and County of Kent, Michigan (the County) under the provisions of Act 31, Public Acts of Michigan, 1948, as amended. The purpose of the Authority is to acquire, construct, furnish, equip, operate and maintain buildings for any legitimate public purpose of the governmental units. The Authority is authorized by statute to issue bonds to finance its activities. The bond principal and interest are to be paid through lease payments made by the governmental units to the Authority.

2. Summary of Significant Accounting Policies

Measurement Focus and Financial Statement Presentation

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority reports the following major funds:

Public Museum Parking Facility - the Authority leases this facility and equipment to the City under a contract collateralized by the limited tax full faith and credit pledge of the City.

DeVos Place Convention Center - accounts for the improvement and construction of the convention/performing arts center/entertainment facility.

Budget

The budget for the Authority is a project budget rather than an annual budget. Therefore, budget to actual information has not been reflected in the financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the

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amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and Investments

The City maintains an investment pool for most City funds and component units. The Authority's portion of the investment pool is displayed on the balance sheet as equity in pooled cash and investments. Investments consist of certificates of deposits with original maturities of greater than three months at the date of purchase, mutual funds and commercial paper. Investments are carried at fair value. State statutes require that certificates of deposit be maintained in financial institutions with offices in the State of Michigan. Interest income earned as a result of cash and investment pooling is distributed to the appropriate funds.

Investment policies and categorization of cash and investments are included in the Comprehensive Annual Financial Report of the City of Grand Rapids to give an indication of the level of risk assumed by the City at year-end. It is not feasible to allocate the level of risk to the various component units of the City.

Capital Assets

Capital assets include land, buildings, equipment and furniture, and are valued at historical cost or estimated cost if actual historical cost is not available. Capital assets contributed by the Grand Rapids-Kent County Convention/Arena Authority were valued at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset (30-50 years for buildings and 3-20 years for equipment and furniture). Construction costs are capitalized when incurred. Interest on bonds during construction periods is capitalized net of any interest earned. Upon retirement of the bonds, the assets will be leased to the County of Kent with a sublease to the Grand Rapids-Kent County Convention/Arena Authority.

3. Leases Receivable

The Authority leases facilities to the governmental units under contracts capitalized as direct financing leases. The lease payments are pledged solely for payment of the maturing bonds and interest. When the bonds issued by the Authority have been retired, title to the facilities will be conveyed to the City or the County of Kent who will

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simultaneously convey the title to the Grand Rapids-Kent County Convention/Arena Authority.

At June 30, future minimum lease payments receivable under this direct financing lease are as follows:

	Public Museum
Fiscal Year	Parking Facility
2009	\$ 269,875
2010	269,375
2011	268,375
2012	271,750
2013	269,500
2014-2017	271,625
	1,620,500
Less: unearned interest	(220,500)
Net Lease Receivable	\$ 1,400,000

The Downtown Development Authority has agreed to reimburse Kent County for half of the debt service on the DeVos Place series 2003 bonds. Following is schedule of the minimum lease payments receivable on this operating lease:

Fiscal Year	DeVos Place Series 2003 B
2009	\$ 390,012
2010	388,937
2011	387,188
2012	389,387
2013	385,763
2014-2018	1,927,463
2019-2023	1,876,694
2024	369,450

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The County of Kent is responsible for the total debt service on the 2001 bonds and half of the debt service on the DeVos Place series 2003 bonds. Following is the schedule of the minimum lease payments receivable on these operating leases:

	DeVos Place	DeVos Place	
Fiscal Year	Series 2001	Series 2003 A	
2009	\$ 4,604,781	\$ 390,012	
2010	4,782,781	388,937	
2011	4,953,606	387,188	
2012	5,135,388	389,387	
2013	5,333,428	385,763	
2014-2018	30,316,188	1,927,463	
2019-2023	36,935,000	1,876,694	
2024-2028	44,570,000	369,450	
2029-2032	42,165,000		

4. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance			Balance
	July 1, 2007	Additions	Deletions	June 30, 2008
Capital assets not being depreciated Land	\$ 22,180,088	\$ -	\$ -	\$ 22,180,088
Capital assets being depreciated Buildings	208,416,775	-	-	208,416,775
Equipment and furniture	3,986,029	-		3,986,029
Total capital assets being depreciated	212,402,804	-	-	212,402,804
Less accumulated depreciation				
Buildings Equipment and furniture	14,257,044 834,210	4,340,925 317,125	-	18,597,969 1,151,335
Total accumulated depreciation	15,091,254	4,658,050	-	19,749,304
Total capital assets being depreciated, net	197,311,550	(4,658,050)	-	192,653,500
Total Capital Assets, net	\$ 219,491,638	\$ (4,658,050)	\$ -	\$214,833,588

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5. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2008 are as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Bonds payable					
DeVos Place	\$ 84,548,904	\$ -	\$ 3,215,000	\$ 81,333,904	\$3,545,000
Public Museum Parking					
Facility	1,595,000	-	195,000	1,400,000	205,000
Accrued interest on capital					
appreciation bonds	14,677,937	3,186,505	-	17,864,442	_
	_			_	_
Total	\$100,821,841	\$3,186,505	\$ 3,410,000	\$100,598,346	\$3,750,000

The following table summarizes the bonds outstanding:

	DeVos Pla	ace	
	Series 2001	Series 2003 A & B	Public Museum Parking Facility
Original issue	\$84,578,904	\$10,000,000	\$3,425,000
Outstanding balance	\$72,803,904	\$8,530,000	\$1,400,000
Interest rates	5.00% to 5.59%	3.00% to 5.25%	5.00%
Serial maturity on outstanding bonds	December 1, 2008-2031	December 1, 2008-2023	January 1, 2008-2014
Call provision begins	December 1, 2003 and December 1, 2015	December 1, 2013	January 1, 2003
Source of lease payments used for redemption funds	County of Kent hotel/motel tax	County of Kent hotel/motel tax**	Tax increment revenues*

^{*} Although this debt issue is an obligation of the City of Grand Rapids, the current debt service requirements are paid by the Downtown Development Authority from Tax Increment Revenues.

^{**} Although this debt is the obligation of the County of Kent, one-half the debt service requirement will be reimbursed to the County per a reimbursement agreement with the Downtown Development Authority.

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Call premiums vary and diminish toward maturity. Public Museum Parking Facility bonds constitute limited tax full faith and credit general obligations of the governmental units.

The \$84,578,904 bond issue for DeVos Place contains \$42,703,904 of capital appreciation bonds. These bonds, upon which no interest is paid, appreciate in value over time to \$142,715,000. The bonds mature annually from 2015 through 2031. Interest accrues semiannually in December and June, even though the interest is not paid until maturity.

The annual requirements to pay principal and interest on outstanding bonds payable at June 30 are as follows:

Fiscal Year	DeVos Place		Public Museum Parking Facility		Total
	Principal	Interest	Principal	Interest	Principal Payments
2009	\$ 3,545,000	\$ 1,839,805	\$ 205,000	\$ 64,875	\$ 3,750,000
2010	3,895,000	1,665,655	215,000	54,375	4,110,000
2011	4,260,000	1,467,982	225,000	43,375	4,485,000
2012	4,675,000	1,239,162	240,000	31,750	4,915,000
2013	5,115,000	989,954	250,000	19,500	5,365,000
2014-2018	22,038,700	12,132,414	265,000	6,625	22,303,700
2019-2023	16,365,879	24,322,509	-	-	16,365,879
2024-2028	12,662,637	32,646,263	-	-	12,662,637
2029-2032	8,776,688	33,388,312	-	-	8,776,688
	\$ 81,333,904	\$ 109,692,056	\$ 1,400,000	\$ 220,500	\$ 82,733,904

Defeased Debt

In November 2001, the Authority defeased Grand Rapids Public Museum, Van Andel Museum Center series 2000 refunding bonds by placing cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2008, \$1,825,000 of bonds outstanding is considered defeased.